

SAN JUAN MENTAL HEALTHSUBSTANCE ABUSE

SPECIAL SERVICE DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

**SAN JUAN MENTAL HEALTH/SUBSTANCE ABUSE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
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FOR THE YEAR ENDED DECEMBER 31, 2005**

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INDEPENDENT AUDITORS' REPORT

Members of the Board
San Juan Mental Health\Substance Abuse
Special Service District
356 South Main
Blanding, Utah 84511

We have audited the accompanying financial statements of the business-type activities of San Juan Mental Health\Substance Abuse Special Service District, as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of San Juan Mental Health\Substance Abuse Special Service District as of December 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2006 on our consideration of San Juan Mental Health\Substance Abuse Special Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, as listed in the financial section of the table of contents, is not a required part of the basic financial statements, but is supplementary information, required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, reading "Susan Rich Marsing".

Price, Utah

June 4, 2006

**SAN JUAN MENTAL HEALTH\SUBSTANCE ABUSE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

Our discussion and analysis of San Juan Mental Health\Substance Abuse Special Service District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2005. All of the financial activity results from "business-type" activities.

FINANCIAL HIGHLIGHTS

- ❖ Total Revenues from business activities increased to \$ 1,654,013 in 2005 from \$ 1,400,248 in 2004. An increase of 18.12% in business revenue for 2005 compared to a decrease of 10.26% in 2004. (The increase in revenue is mainly attributable to an increase in payments from the Mental Health and Substance Abuse contracts.)
- ❖ Total business expenses increased to \$ 1,674,415 in 2005 up from \$ 1,556,528 in 2004. An increase of 7.57% during 2005 compared to a decrease of 5.5% in 2004. (The increase in expenditures is directly related to an increases in contract labor and Medicaid match requirements for 2005.)
- ❖ Non-operating revenues and expense for the district were as follows:
 - a. Interest earned in 2005 totaled \$ 24,122 as compared to \$ 10,794 in 2004. The increase in earnings was due to higher interest rates and higher average cash balances.
 - b. Net assets during 2005 decreased by \$ 82 as compared to a \$ 149,513 decrease for 2004. The decrease in net assets is due to the increase in revenue that was less than the increase in expenses.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The financial reports; Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows, comprise pages 10-15. Governmental accounting practices that are standard and acceptable have been used and followed in preparation of these reports. The purpose of the financial reports is to identify Revenues and Expenses resulting from business activities. The net income or (loss) from operations, adjusted for depreciation, identifies the need for further analysis of contracts and programs with their related expenses. Certain key financial ratios taken from the Statement of Net Assets help identify financial strength and liquidity. Since the District is operated as an enterprise fund, there are no fund statements presented because all operations of the District are reported using the accrual method of accounting.

REPORTING THE DISTRICT BUSINESS OPERATIONS

Our analysis of the District as a whole begins on page 11. The key financial reports, prepared from our information by our independent auditors, provide the accounting from which schedules in this report have been created. The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Fund Net Assets summarize the District's business operations for the year and provide a basis for assessing financial strengths and weaknesses. From these reports, trends are monitored and budgets are prepared for future periods. These reports are prepared using the accrual accounting method, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or payment made.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets, the District shows all of the activities in one fund.

- ❖ **Business-type activities** – The District charges Medicaid, contracts, insurances and patients for their individual care and treatments that are provided. Charges for these services are based on cost study reports and reimbursement rates that have been established by our contracts. We realize that a portion of our services are unrecoverable and written off, but we constantly monitor the services we provide and the subsequent collection for these services and evaluate what areas need to be improved. Although San Juan County funds are received, these funds are used only to pay the required match for our Medicaid mental health and substance abuse contracts.

REPORTING THE DISTRICT'S SIGNIFICANT FUND

The District has only one fund, which accounts for the activity of the District. The entity-wide financial statements, which begin on page 11, provide detailed information about the operations of the District as a whole. The District's only fund is operated as an enterprise fund. Enterprise funds are reported using an accrual accounting method, which records expenses when they are incurred and records revenues when they are earned. The District does not have any governmental type funds.

THE DISTRICT AS A TRUSTEE

The District does not hold any funds or property in a trustee capacity.

THE DISTRICT'S KEY FINANCIAL REPORTS

NET ASSET REPORT

	BUSINESS- TYPE ACTIVITIES 2004	BUSINESS- TYPE ACTIVITIES 2005
ASSETS		
Current and other assets	\$ 1,222,851	\$ 1,329,609
Capital assets (net)	570,991	538,869
Total assets	<u>\$ 1,793,842</u>	<u>\$ 1,868,478</u>
LIABILITIES		
Current liabilities	\$ 200,744	\$ 295,718
Long-term liabilities	188,009	178,903
Total liabilities	<u>\$ 388,753</u>	<u>\$ 474,621</u>
NET ASSETS		
Invested in Capital Assets, net of debt	\$ 411,991	\$ 385,992
Restricted	493,373	506,567
Unrestricted	499,725	501,298
Total net assets	<u>\$ 1,405,089</u>	<u>\$ 1,393,857</u>

Net Assets total of the District for 2005 are \$ 1,393,857. *Unrestricted* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – is \$ 501,298. These net assets are used to finance the continuing operations of providing services to the mental health and substance abuse facility.

The District's Board adopted a resolution, restricting retained earnings for ninety days of operational budget, funds for compensated absences and capital outlay, as well as the bond reserve requirements. The balance has changed from 2004 to 2005. An increase in the current year expenses and a decrease in compensated absences liability have caused a different calculation needed for the reserved retained earnings. Capital outlay amount has remained the same.

A key financial ratio - the Current Ratio - is calculated by dividing current assets by current liabilities. This ratio is an indicator of liquidity and ability to pay current operational bills. The ratio for the year ending December 31, 2005 is 4.50 compared to 6.09 for 2004. The District's ratio indicates a strong liquidity position, but has been decreasing during the past few years.

	TYPE ACTIVITIES 2004	TYPE ACTIVITIES 2005
REVENUES		
Program Revenues:		
Charges for services	\$ 674,667	\$ 822,686
Grants and contributions	702,351	809,234
General Revenues:		
Interest income - not restricted	10,794	24,122
Other revenues	23,230	22,093
Total revenues	<u>\$ 1,411,042</u>	<u>\$ 1,678,135</u>
EXPENSES		
Program Expense:		
Salaries and fringe	\$ 985,806	\$ 953,895
Consulting\contract services	143,590	175,712
Materials and supplies	48,473	40,688
Utilities	13,641	14,483
Insurance	34,477	33,802
Depreciation	51,930	44,914
Repairs and maintenance	53,066	52,698
Medicaid match	132,663	264,998
Other	96,909	97,027
Total expenses	<u>\$ 1,560,555</u>	<u>\$ 1,678,217</u>
Change in net assets	<u>\$ (149,513)</u>	<u>\$ (82)</u>
Net assets - beginning	\$ 1,567,327	\$ 1,405,089
Prior period adjustment	(12,725)	(11,150)
Net assets - ending	<u>1,405,089</u>	<u>1,393,857</u>
	<u><u>\$ (149,513)</u></u>	<u><u>\$ (82)</u></u>

The District's continued decrease in net assets has caused concern and changes are needed in the current year to reverse the trend. The District is striving to increase the revenue to match expenses, but if the revenues are not available, elimination of some expenses will be needed. The ability to continue to operate efficiently and provide the necessary services for the County continues to be the main goal and focus of the District. The District realizes that fluctuations will occur from year to year and all need to work together to achieve our goals, but the District will not be able to operate effectively if the pattern does not change.

CASH SOURCES AND USES

	2004	2005
Beginning cash balance as of January 1,	\$ 668,702	\$ 800,222
Change in net assets:		
Depreciation (source of cash)	\$ (156,280)	\$ (20,402)
Accounts receivable increase (use of cash)	51,930	44,914
Due from other governments decrease (source of cash)	555	(14,867)
Prepaid expenses increase (source of cash)	254,533	44,649
Accounts payable increase (source of cash)	(15,770)	15,307
Wages and payroll liabilities decrease (source of cash)	68,291	94,155
Compensated absences decrease (use of cash)	(36,770)	991
Interest income (source of cash)	(3,838)	(106)
Capital asset costs and debt payments (use of cash)	10,794	24,122
	(41,925)	(25,767)
Total change in net assets	\$ 131,520	\$ 162,996
Ending cash balance as of December 31,	\$ 800,222	\$ 963,218

Use of funds is controlled and authorized by the District's board of directors. The board of directors relies heavily on key personnel that are responsible to oversee the day-to-day operations. The executive director and business manager are crucial to the supervising and monitoring of the mental health facility. The board reviews the monthly financial information, compares year to date expenses to budget and makes necessary suggestions and/or corrections. All major, capital expenditures are approved by the board of directors. The board of directors approves an annual operational budget and forwards it to the County Commission and also submits copies of the budget to the State Auditor as required by Utah State law.

BUSINESS ACTIVITIES AND PURPOSES

Revenues for the District are generated by providing services to clientele who meet the mental health, substance abuse, or other abuse criteria. Since the District has several grants and contracts, they are able to provide services for a broader spectrum of individuals. The District receives payments from several different sources. Funds come from Medicaid mental health and substance abuse, insurance companies, private individuals, federal and state grants and County match contributions. The District provides services to low-income individuals and the amount that they are required to pay depends on their income. A certain amount of these services are generally considered charity work or free care.

BUSINESS ACTIVITIES AND PURPOSES (Continued)

The objective and purpose of the District is to provide mental health and substance abuse facilities with responsible, well-trained professionals who can render assistance to individuals in San Juan County. As the need for these services continues to fluctuate, the District is striving to have in place, sufficient personnel and facilities.

DEBT MANAGEMENT

As of December 31, 2005, the District had \$ 150,000 in revenue bonds outstanding. This debt was accepted by the Board in 1998 for the construction of a health care facility. More detailed information about the District's long-term liabilities is presented in note 11 on pages 26 and 27 of this report.

BUDGETARY HIGHLIGHTS

The 2005 budget was adopted for the current year on December 20, 2004. Since the District operates as an enterprise fund, it is only required to comply with the budget on an entity wide basis. The original budget submitted to the Utah State Auditors office was \$ 1,606,170. After the auditor's adjustments, the actual expenditures amounted to \$ 1,678,217. The budget was over spent by \$ 72,047.

CAPITAL ASSETS

As of December 31, 2005, the District had net capital assets of \$ 538,869. The District had \$12,791 of equipment capital asset purchases during 2005. Budgets have been created that account for the purchase of the equipment and the board approval is needed for all major capital expenditures. The following table shows the balance of assets reflected by the capitalization change.

Capital Assets at Year-end (Net of Depreciation) 2004 and 2005

	Business-Type Activities	
	2004	2005
Land	\$ 65,500	\$ 65,500
Buildings	385,652	369,523
Improvements	45,198	41,034
Equipment	74,641	60,688
Work in progress		2,124
	<hr/>	<hr/>
Net capital assets	<u>\$ 570,991</u>	<u>\$ 538,869</u>

CAPITAL ASSETS (Continued)

This year's major additions included:

Compaq Proliant Server	\$ 7,346
Wireless Network Equipment	3,321
Fiber Optic Connection	2,124

The District's fiscal year 2006 capital budget will expend additional funds for equipment that will be needed on an as needed basis.

ECONOMIC FORECAST AND FUTURE BUDGET

San Juan County's mental health & substance abuse treatment district will be able to continue to provide core and required services to the residents of San Juan County who seek those specialized services. The Special Service District continues to prioritize spending and continues to prioritize which services to maintain and which ones we must cut in order to meet the on-going decreases in funding to the District.

The nation-wide decrease in funding for mental health and substance abuse related treatment services continues to be of great concern to this Special Service District. Over the next few years the District will be forced to treat fewer individuals and to continue to trim existing services, however; core and/or required services will remain available to San Juan County residents who are in need of emergent care and in need of critical services from the District. We will continue to provide typical outpatient treatment of mental health and substance abuse to the general population, however; this will be done on more of a basis of being able to pay for those services, rather than the general population being able to receive day-to-day services under the circumstances in which they are unable to afford and pay for these services. As of July 1, 2006 services will only be available in the Blanding Outpatient office for general mental health and substance abuse treatment. Also, as of July 1, 2006, Day Treatment Services will only be offered at the Blanding Day Treatment building. All other offices and programming has been cut in an effort to preserve sufficient reserve and to preserve current year revenue in order to cover costs of operations. Funds will be spent on a priority basis that depends on the seriousness of the illness and the amount of impairment that the illness is having on the particular individual. The budget of San Juan Counseling continues to be funded at a lesser amount each year and as the percentage of cuts come to the agency the corresponding cuts must be made to services and to available programs, etc.

The San Juan Counseling budget for calendar year 2006 is \$1,252,471. The budget for the calendar year 2003 was \$1,754,402; showing that in the space of three years this Special Service District has suffered losses of approximately \$501,931 as a result of decreased revenues derived from State funds (Division of Substance Abuse & Mental Health), Federal funding and the termination of grants during those three years. Many efforts have been made to offset the losses in revenue during the calendar year 2006 resulting in office closures and a decrease in staff. With the office closures and reductions-in-force, we forecast that the next year, calendar year 2007, will show that the District will come within \$50,000 – \$75,000 of balancing expenses and revenue and that the need to further reduce expenses or increase revenues in order to truly balance the budget will continue. We believe that future state and federal funding is expected to stay flat or at a decreased rate. San Juan Counseling's recent problem-solving process whereby a reorganization plan has been designed to specifically deal with this trend of decreasing funds has largely been effective. This plan prioritizes services, increases revenues via the provision of billable services, decreases expenses for the agency through cutting programs and services, and cutting jobs in an effort to stabilize the financial instability of the agency. San Juan Counseling has sufficient reserves to enact and carry out this reorganization plan while operating at a net loss. The San Juan County Commissioners are aware of the

financial difficulties facing the Special Service District and are aware of the general plan to stabilize the financial status of the agency. The Board of Directors of San Juan Mental Health\Substance Abuse Special Service District are directly overseeing the reorganization plan and have approved the plan based on a more specific knowledge base of the workings of the plan.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of San Juan Mental Health\Substance Abuse Special Service District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Administrator or Executive Director of San Juan Counseling at 356 South Main, Blanding, Utah, 84511.

SAN JUAN MENTAL HEALTH/SUBSTANCE ABUSE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

MENTAL HEALTH FACILITY

ASSETS

Current Assets:

Cash	\$ 181,644
Investments, at cost	768,274
Restricted Investments	13,300
Accounts receivable	124,872
Less: Allowance for doubtful accounts	(84,707)
Due from other governments	307,826
Prepaid expenses	18,400
	<hr/>
Total current assets	\$ 1,329,609
	<hr/>

Noncurrent Assets:

Capital Assets:

Land	\$ 65,500
Buildings	483,879
Improvements	58,737
Equipment	294,905
Work in progress	2,124
Accumulated depreciation	(366,276)
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Total noncurrent assets	\$ 538,869
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Total assets	\$ 1,868,478
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"The accompanying notes are an integral part of this statement."

SAN JUAN MENTAL HEALTH/SUBSTANCE ABUSE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

MENTAL HEALTH FACILITY

LIABILITIES

Current liabilities:

Accounts payable	\$ 249,774
Accrued wages payable	18,760
Payroll taxes payable	15,307
Accrued interest payable	2,877
Revenue bonds payable - Due within one year	9,000

Total current liabilities \$ 295,718

Noncurrent liabilities:

Revenue bonds payable - Due in more than one year	\$ 141,000
Compensated absences	37,903

Total noncurrent liabilities \$ 178,903

Total liabilities \$ 474,621

NET ASSETS

Investment in capital assets, net of related debt	\$ 385,992
Restricted for debt and capital outlay	506,567
Unrestricted	501,298

Total net assets \$ 1,393,857

Total liabilities and net assets \$ 1,868,478

"The accompanying notes are an integral part of this statement."

SAN JUAN MENTAL HEALTH\SUBSTANCE ABUSE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

MENTAL HEALTH FACILITY

Operating Revenues:

Charge for services - Medicaid/Private pay/Other	\$ 822,686
Intergovernmental	809,234
Miscellaneous	22,093
	<hr/>
Total operating revenue	\$ 1,654,013
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Operating Expenses:

Salaries and benefits	\$ 953,895
Subscriptions and memberships	3,824
Professional services	10,915
Travel	12,115
Office expense	9,587
Utilities	14,483
Rent	3,240
Operating supplies	28,933
Depreciation	44,914
Maintenance and operation	7,233
Training	3,408
Insurance	33,802
Contract labor	164,797
Board expenses	3,355
Food	18,325
Clinical material	2,168
Client medication	914
Vehicle expense	45,465
Hospitalization	6,003
Medicaid match	264,998
Bad debts	34,337
Miscellaneous	7,704
	<hr/>
Total operating expenses	\$ 1,674,415
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Operating income (loss)	\$ (20,402)
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"The accompanying notes are an integral part of this statement."

EXHIBIT B
(Continued)

**SAN JUAN MENTAL HEALTH\SUBSTANCE ABUSE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUND
	MENTAL HEALTH FACILITY
Non-operating Revenues (Expenses)	
Interest income	\$ 24,122
Debt interest/fees	(3,802)
	<hr/>
Total non-operating revenues (expenses)	\$ 20,320
	<hr/>
Change in net assets	\$ (82)
	<hr/>
Total net assets, January 1, 2005	1,405,089
Less prior period adjustment	(11,150)
	<hr/>
Total net assets, December 31, 2005	\$ 1,393,857
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"The accompanying notes are an integral part of this statement."

SAN JUAN MENTAL HEALTH/SUBSTANCE ABUSE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF CASH FLOWS PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Cash flows from operating activities:		
Cash received for services	\$ 807,819	
Cash payments to suppliers for goods and services	(566,144)	
Cash payments to employees for services	(953,010)	
Intergovernmental	853,883	
Other operating revenues	22,093	
Net cash used by operating activities		\$ 164,641
Cash flows from noncapital financing activities:		
Contributed capital	\$...	
Net cash provided by noncapital financing activities		...
Cash flows from capital and related financing activities:		
Acquisition of capital assets	\$ (12,792)	
Principal paid on revenue bonds	(9,000)	
Interest/fees paid on revenue bonds	(3,975)	
Net cash provided by capital and related financing activities		(25,767)
Cash flow from investing activities:		
Interest on investments received	\$ 24,122	
Net cash provided by investing activities		24,122
Net increase/(decrease) in cash and cash equivalents		\$ 162,996
Cash and cash equivalents at January 1, 2005		800,222
Cash and cash equivalents at December 31, 2005		\$ 963,218

"The accompanying notes are an integral part of this statement."

**SAN JUAN MENTAL HEALTH/SUBSTANCE ABUSE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF CASH FLOWS PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING
ACTIVITIES:**

Operating income (loss)		\$ (20,402)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 44,914	
Change in assets and liabilities:		
Decrease in due from other governments	44,649	
Increase in accounts receivable	(14,867)	
Decrease in prepaid expense	15,307	
Increase in accounts payable	94,155	
Increase in accrued liabilities	4,557	
Decrease in compensated absences	(106)	
Decrease in salaries payable	(3,566)	
		<hr/>
Total adjustments		185,043
		<hr/>
Net cash used by operating activities		\$ 164,641
		<hr/>

"The accompanying notes are an integral part of this statement."

**SAN JUAN MENTAL HEALTH\SUBSTANCE ABUSE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

San Juan Mental Health\Substance Abuse Special Service District was created as a special service district by the San Juan County Commissioners on April 1, 1997. The District is controlled by an Administrative Control Board, appointed by the County Commissioners under the authority of the provision of the Utah Special Service District Act, Chapter 17a, Title 2, Part 13, Utah Code Annotated, 1953, as amended, and Article XIV, Section 8 of the Constitution of Utah. The District is a component unit of San Juan County as defined by the Governmental Accounting Standards Board in their statement number 14 "The Financial Reporting Entity". The Board's authority is derived from the County Commissioners, who has ultimate responsibility for the District.

The Board consists of five members, each of whom is a qualified elector of the District and who are appointed by the County Commissioners. The County Commissioners appoint county residents who are willing to serve as members. These appointed members are educated as to the needs of the Special Service District.

The primary purpose of the District is to oversee, administer and manage a County owned, mental health facility that is responsive to the needs of the residents, their families and the community at large, through a consistently high standard of care. The accounting policies of San Juan Mental Health\Substance Abuse Special Service District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management's Discussion and Analysis (MD&A) providing an analysis of the District's overall financial position and results of operations.

This and other changes are reflected in the accompanying financial statements (including notes to financial statements).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity

All financial activities over which the District has oversight responsibility are included in this report. The basis for inclusion or exclusion of other entities in the District's financial statements was based on the criteria set forth in the Governmental Accounting Standards Board (GASB) pronouncements. The basic criteria for including an entity, a board, or an agency in this report is the existence and exercise of oversight responsibility; consideration has been given to financial interdependency, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters. According to the above criteria, no other entities have been included in the District's financial statements.

B. Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets, the statement of revenues, expenses and changes in fund net assets and the statement of cash flows. The District is considered a special-purpose government engaged only in business-type activities. It is classified as a proprietary fund type and operates as an enterprise fund. Enterprise funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that its costs to providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges. The function of the District is to oversee, administer and manage a County owned, mental health facility that is responsive to the needs of the County. The financial statements of the District consist only of an enterprise fund and neither fiduciary funds nor component units that are fiduciary in nature are included.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Therefore, revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized in the period incurred, if measurable.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide or proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for business-type activities, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont.)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first then unrestricted resources, as they are needed.

Amounts reported as charges for services include all charges for all types of services charged to Medicaid, third party and private pay. Amounts reported as grants and County contributions for contract matching are accounted for as a intergovernmental revenue. Miscellaneous items are considered uncategorized as to specific type.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to patients for mental health services. Operating expenses for the District include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. **Capital Assets**

Capital assets, which include, land, buildings, improvements and equipment are reported in the government-wide financial statements. Capital assets are defined by the District, as an asset with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The District adopted a capitalization threshold in the amount of \$ 1,000.

Buildings, improvements and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Improvements	10 – 15
Equipment	5 – 12

E. **Budget and Budgetary Accounting**

The District follows the budgetary practices and procedures required by State law. These requirements are summarized as follows:

1. A formal budget is adopted by the District.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. **Budget and Budgetary Accounting (Continued)**

2. The budget is a complete financial plan that identifies all estimated revenues and all appropriations for expenditures for the year. In accordance with State law, all appropriations lapse at the end of the budget year; accordingly, no encumbrances are recorded. As its option, the District may permit its expenditure accounts to remain open for a period of 30 days after the close of its fiscal year for the payment of approved invoices for goods received or services rendered prior to the close of the fiscal year.
3. The District's Manager prepares a tentative budget and submits it for review with the Administrative Control Board.
4. The tentative budget is a public record and is available for public inspection for at least ten days prior to public hearings held to consider adoption of the budget.
5. Notice of the scheduled public hearings is published at least ten days prior to the meetings.
6. The District presents the tentatively adopted budget to the public in a public hearing. Members of the public may comment on the budget and recommend changes to the Administrative Control Board.
7. The Administrative Control Board considers the comments made by the public and makes final adjustments to the budget.
8. By December 15th, the Administrative Control Board adopts the budget by resolution. A copy of the budget is certified by the Administrative Control Board Secretary and is filed with the State Auditor within 30 days of adoption. A certified copy of the budget is available for public inspection.
9. The budget may be amended to reflect changes in circumstances that occur during the year. Budgets may be increased by resolution of the Board at any time during the year.
10. Under Utah Code, the District's budget establishes maximum legal authorization for expenditures during the fiscal year. The District's Manager shall certify as appropriate that a claim has been pre-audited, documented, and approved by the Board, and does not over expend the appropriate budget established by the Board. Expenditures are not to exceed the budget amounts, including revisions, except as allowed by the Code for certain events.

F. **Deposits and Investments**

Public funds held by San Juan Mental Health\Substance Abuse Special Service District may be deposited or invested only in instruments listed below and meet objectives outlined by State statutes, including: (a) safety of principal, (b) need for liquidity and (c) yield on investment.

Qualified investments:

- 1) Negotiable or non-negotiable deposits of qualified depositories.
- 2) Repurchase agreements with qualified depositories or primary reporting dealers.
- 3) Commercial paper, which is rated P-a by Moodys Investment Services or A-a by Standard and Poors, Inc., having a remaining term to maturity of 180 days or less.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

F. **Deposits and Investments (Continued)**

- 4) Banker's acceptances.
- 5) Other negotiable deposits of \$100,000 or more.
- 6) Obligations of the U.S. Treasury.
- 7) Obligations issued or guaranteed by some agencies or instrumentalities of the United States.
- 8) Tax anticipation and general obligation bonds of state and local governmental units.
- 9) Various other loans in accordance with Section 52-7-17 of the Utah Code Annotated 1953.

G. **Cash and Cash Equivalents**

For purposes of the statement of cash flows, San Juan Mental Health\Substance Abuse Special Service District considers all highly liquid investments (including restricted assets) with a maturity of six months or less when purchased to be cash equivalents. All amounts reported on the balance sheet as cash and investments would be considered cash equivalents.

H. **Accounting Method**

The full accrual method of accounting is being used. Under the accrual method of accounting, revenues are recognized when they are earned and expenses are recorded when they are incurred.

I. **Accumulated Unpaid Vacation and Sick Leave (Compensated Absences)**

The District has vacation and sick leave policies, which determine an employee's vacation and sick leave based on the length of time of employment. The district will pay sick leave based on the following two options: election by the employee to use the cash value of the accumulated sick leave to provide premium payments for health insurance or election by the employee to cash out accumulated sick leave at a 33 1/3 percent of the accumulated sick leave. Both options are at the prevailing hourly rate at the time of retirement. One hundred percent of the vacation hours will be paid at the prevailing hourly rate at the time of retirement. The amount carried in the financial statements consists of vacation and sick leave hours accrued at year-end, at the prevailing rate of pay.

2. **ACCOUNTS RECEIVABLE**

Accounts receivable include the accrued amounts for private pay, third party insurance and other miscellaneous accounts. For the year ended December 31, 2005, an allowance for doubtful accounts has been recorded on the books.

3. BUDGET VARIANCE

During the year ended December 31, 2005, the District overspent their budget in the Enterprise Fund.

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Balance 12-31-04</u>	<u>Additions</u>	<u>Contributions & Adjustments</u>	<u>Balance 12-31-05</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 65,500			\$ 65,500
Work in Progress		\$ 2,124		2,124
Total capital assets not being depreciated	<u>\$ 65,500</u>	<u>\$ 2,124</u>	<u>\$...</u>	<u>\$ 67,624</u>
Capital assets being depreciated:				
Buildings	\$ 483,879			\$ 483,879
Improvements	58,737			58,737
Equipment	<u>284,237</u>	<u>\$ 10,668</u>		<u>294,905</u>
Total capital assets being depreciated	<u>\$ 826,853</u>	<u>\$ 10,668</u>	<u>\$...</u>	<u>\$ 837,521</u>
Less accumulated depreciation for:				
Buildings	\$ 98,227	\$ 16,129		\$ 114,356
Improvements	13,539	4,164		17,703
Equipment	<u>209,596</u>	<u>24,621</u>		<u>234,217</u>
Total accumulated depreciation	<u>\$ 321,362</u>	<u>\$ 44,914</u>	<u>\$...</u>	<u>\$ 366,276</u>
Total capital assets, being depreciated, net	<u>\$ 505,491</u>	<u>\$ (34,246)</u>	<u>\$...</u>	<u>\$ 471,245</u>
Business-type activities capital assets, net	<u>\$ 570,991</u>	<u>\$ (32,122)</u>	<u>\$...</u>	<u>\$ 538,869</u>

5. DEPOSITS AND INVESTMENTS

Deposits and investing for the District is governed by the Utah Money Management Act (Utah Code, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

The District follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At December 31, 2005, the District's bank balance of cash on deposit was \$193,022 of this amount \$100,000 was insured. But \$93,022 of the deposits are uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

5. DEPOSITS AND INVESTMENTS (Continued)

As of December 31, 2005, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
State of Utah Public Treasurer's Investment Fund	\$ 779,999	\$ 779,999			
Mental Health Risk Retention Group, Inc.	1,575				\$ 1,575
Total Investments	<u>\$ 781,574</u>	<u>\$ 779,999</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 1,575</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The District also manages its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has not adopted a formal policy with regards to credit risk on investments but the District informally follows the policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

5. **DEPOSITS AND INVESTMENTS (Continued)**

At December 31, 2005, the District had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
State of Utah Public Treasurer's Investment Fund	\$ 779,999				\$ 779,999
Mental Health Risk Retention Group, Inc.	1,575				1,575
Total	<u>\$ 781,574</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 781,574</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. As of December 31, 2005, the District had \$779,999 invested in the Public Treasurer's Investment Fund and was held by them. The District also owns three shares of stock in Mental Health Risk Retention Group with a cost and estimated fair market value of \$1,575. The District's ownership percentage is less than 5%.

6. **INTERGOVERNMENTAL REVENUE**

The District receives federal and state grants and matching funds from San Juan County. The revenue received is shown as operating revenues on the Statement of Revenues, Expenses and Changes in Fund Net Assets. These funds are instrumental in the overall operations of the District and are used to enhance the services provided.

7. **PENSION PLAN**

Local Governmental – Cost Sharing

Plan Description. San Juan Mental Health\Substance Abuse Special Service District contributes to the Local Contributory Retirement System, Local Governmental Noncontributory Retirement System, which are all for cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement systems (Systems). Utah Retirement systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy. For plan members in the Local Governmental Noncontributory Retirement System, the District is required to contribute 11.09 % for January 2005 – June 2005 and 11.09% for July 2005 – December 2005. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

San Juan Mental Health\Substance Abuse Special Service District's contributions to the Noncontributory Retirement System for the years ending December 31, 2005, 2004, and 2003 were \$68,574, \$67,229 and \$60,267 respectively. The contributions were equal to the required contributions for each year.

8. **PREPAID EXPENSES**

San Juan Mental Health\Substance Abuse Special Service District purchased several insurance policies that cover an entire year that does not follow the calendar year. The District has elected to allocate the payment monthly, which requires the amount to be recorded as an asset in prepaid expenses and record an expense on a monthly basis.

9. **FUNDING SOURCES**

San Juan Mental Health\Substance Abuse Special Service District operates on funds provided by Medicaid mental health contracts, Medicaid substance abuse contracts, several federal and state contracts and County match contributions. Part of the Medicaid contracts require a match that has to come from other sources of funds. The District's ability to continue operations using Medicaid mental health and substance abuse contracts, is contingent upon the County's ability to provide the necessary funding match. Although funding is not guaranteed, the County is has a vested interest in the financial match that is needed for the security of the facility.

10. **CONTINGENT OBLIGATIONS**

Management, the Administrative Control Board and legal counsel for San Juan Mental Health\Substance Abuse Special Service District are aware of no litigation involving the District, either in progress or pending, which would materially affect the financial statements as of December 31, 2005, nor of any material contingencies not otherwise disclosed in the Notes to Financial Statements contained herein.

11. **LONG-TERM DEBT**

Business-type Activities

During 1998, the District issued, Health Care Facility Revenue Bonds, Series 1998, dated September 8, 1998, in the District's name for \$ 200,000 to Zions First National Bank, bearing an interest rate of two and one-half percent, payable over 20 years. The repayment schedule is as follows:

<u>Due Date - April 1,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 3,750	\$ 9,000	\$ 12,750
2007	3,525	9,000	12,525
2008	3,300	10,000	13,300
2009	3,050	10,000	13,050
2010	2,800	10,000	12,800
2011 - 2015	10,100	54,000	64,100
2016 - 2019	3,000	48,000	51,000
	<u>\$ 29,525</u>	<u>\$ 150,000</u>	<u>\$ 179,525</u>

11. LONG-TERM DEBT (Continued)

The following schedule shows the activity of the bonds for the year ended December 31, 2005:

<u>Series</u>	<u>Bonds Payable January 1, 2005</u>	<u>New Debt Issued</u>	<u>Payments</u>	<u>Bonds Payable December 31, 2005</u>
Health Care Facility Revenue Bonds 1998	\$ 159,000		\$ 9,000	\$ 150,000
	<u>\$ 159,000</u>	<u>\$...</u>	<u>\$ 9,000</u>	<u>\$ 150,000</u>

12. RELATED PARTY TRANSACTION

The executive director of the District, Dan Rogers, is related to the owner of the local office supply company. The District has not done business with the company during the year. The office supply company is the only one in the area.

13. RESERVED NET ASSETS

During the year 2002, the Board adopted a resolution restricting the net assets. The amounts have changed for the current year, but the purposes have not changed.

Medicaid (90-day operational budget)	\$ 385,864
Liability for compensated absences	37,903
Bond reserve account	13,300
Capital outlay	<u>69,500</u>
	<u>\$ 506,567</u>

14. RESTRICTED INVESTMENT

In 1998, the District issued, Health Care Facility Revenue Bonds, Series 1998. In connection with the bond agreements, the District has established a bond sinking and a bond reserve fund held in the Utah State Public Treasurer's Investment Fund. This fund is to assure that adequate money is available to service debt payments as they come due and to pay for emergency repairs and replacements to the facilities, should such repairs or replacements be necessary. The required reserved/restricted amount is \$13,300.

15. PRIOR PERIOD ADJUSTMENT

During the year, the District was required to repay \$11,150 to the Utah Department of Health due to the reimbursement received from Medicaid that should have been billed to San Juan School District's Healthy Students Grant. The services under question were provided between March 1, 2003 and September 4, 2004. Therefore, the repayment has been recorded as a prior period adjustment.

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MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Members of the Board
San Juan Mental Health/Substance Abuse
Special Service District
356 South Main
Blanding, Utah 84511

RE: Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
With Government Auditing Standards

We have audited the financial statements of the business-type activities of San Juan Mental Health/Substance Abuse Special Service District as of and for the year ended December 31, 2005, which collectively comprise San Juan Mental Health/Substance Abuse Special Service District's basic financial statements and have issued our report thereon dated June 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

Smuin, Rich & Marsing

Price, Utah

June 4, 2006

SMUIN, RICH & MARSING

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Members of the Board
San Juan Mental Health\Substance Abuse
Special Service District
356 South Main
Blanding, Utah 84511

Re: Report on Legal Compliance with Applicable
Utah State Laws and Regulations

We have audited the accompanying financial statements of the business-type activities of San Juan Mental Health\Substance Abuse Special Service District for the year ended December 31, 2005 and have issued our report, which was unqualified, thereon dated June 4, 2006. As part of our audit, we have audited the District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2005. The District received the following major State assistance program from the State of Utah.

Mental Health (Department of Human Services)

The District also received the following nonmajor grants, which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the District's financial statements.)

Substance Abuse (Department of Human Services)
Sex Offenders (Department of Corrections)
Corrections Clients (Department of Human Services)

Our audit also included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Budgetary Compliance
Cash Management	Special Districts
Purchasing Requirements	Other General Issues

The management of San Juan Mental Health\Substance Abuse Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, San Juan Mental Health\Substance Abuse Special Service District, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2005.

SMUIN, RICH & MARSING



Price, Utah

June 4, 2006

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Members of the Board

San Juan Mental Health/Substance Abuse

Special Service District

Blanding, Utah 84511

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of San Juan Mental Health/Substance Abuse Special Service District for the year ended December 31, 2005.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all-inclusive. We welcome the opportunity to discuss any items mentioned in this memorandum or any other accounting or procedural questions.

STATE OF UTAH COMPLIANCE

Contract reimbursement reports – monthly submission

While reviewing the reimbursement reports submitted by the District and the subsequent collection of these funds, we found that the District had not filed the reports timely. The contract specifies that in order for the reports to be considered for reimbursement, they must be submitted within thirty days after the month end for the monthly reports and within twenty days for the year-end report. The District is not meeting the time frame specified in the contract.

We recommend that the District establish a better process in the recording and producing of financial information that will allow sufficient time to complete the reimbursement reports. Many processes are required to be finished before the financial information can be accessed for the report. Those individuals who are part of the processes need to understand better the importance of compliance with the contract. Non-compliance of the contract can produce the possibility that funds may not be reimbursed.

District's Response

The District implemented procedures needed for timely filing of the reimbursement requests, but the personnel involved with these procedures changed and the District was not able to comply with the requirements. The District was able to submit reimbursement reports on a timely basis for the first part of the year, but was not in full compliance at the last of the year. We believe that we can comply with the requirements and will continue to improve our processes. With the reduction of personnel, we will need to assess the problem areas, make the necessary corrections and find a reasonable solution.

Treasurer's Bond

The State of Utah requires every public treasurer to secure a fidelity bond for an amount that is a certain percentage of the prior years budgeted gross revenues. According to Utah Code 51-7-15 and Rule 4 of the Utah Money Management Council requirements, the District is not in compliance with this law. The amount of the bond for the District should be at least \$102,056, but the District only carries an amount that is \$100,000.

We recommend that the District comply with State Law and increase their fidelity bond coverage for the treasurer to the required amount. As the minimum amount fluctuates each year, we also recommend that the District perform this calculation at least yearly when the budget is created.

District's Response

The District reviewed their budget and thought the \$100,000 amount was sufficient for the current year. We will once again review the required amount of the fidelity bond and obtain confirmation from our auditors of the balance that is needed to comply with State law. .

Budgetary Compliance

Utah Code Section 10-6 states that Officers and employees of an entity shall not incur expenditures or encumbrances in excess of the total appropriations for any department or fund. San Juan Mental Health/Substance Abuse Special Service District has expenditures in excess of the budget in the Enterprise Fund.

We recommend that the District comply with Utah Code and ensure that expenditures are within the approved budget, adopted by the District.

Client's Response

The District will monitor the budget compliance more closely, review the expenditures in the Enterprise fund, and compare the amounts to the adopted budget on a regular basis. If the District has expenditures that will exceed the approved budget, we will hold the necessary budget hearings and make adjustments accordingly.

INTERNAL CONTROLS AND FINANCIAL STATEMENT PRESENTATION

Medicaid Transportation receivable

While reviewing the accounts receivable and subsequent collection, we did not find any amounts for Medicaid transportation as an established receivable or subsequent collection. Upon further inquiry, the District had not provided information for Medicaid and Medicaid had not given sufficient direction to the District to determine what amount should be established as a receivable.

We recommend that the District provide the information needed for Medicaid, so that Medicaid can give the direction needed to establish the transportation receivable.

District's Response

The District will provide the necessary information required by Medicaid to determine the amount due from Medicaid Transportation and will keep this flow of information timely.

Allowance Account

We have reviewed the allowance account during the year and determined that the amount that was established at the beginning of the year had not changed. Although accounts had been determined to be non-collectible during the year, the adjustment and recording of this transaction did not occur until year end.

We recommend that the District write off non-collectible accounts during the year against the allowance account and establish a new allowance account for the current year to determine if a bad debt expense in the current year is needed. This will provide the District with better financial statement presentation and allow the Board to identify, on a regular basis, those accounts that need to be written off.

District's Response

The District will review their policies and procedures for non-collectible accounts and the subsequent adjustment in the financial statements against the allowance account and implement the recommendations of the auditors.

SUMMARY

We feel the State of Utah Legal Compliance and Internal Control issues mentioned above are some areas where the District can make changes so as to further improve its internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING



Price, Utah

June 30, 2006